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"Alliance for GATT (General Agreement on Tariffs and Trade) Now"

Max S. Baucus

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(1) Subject*: **Trade**

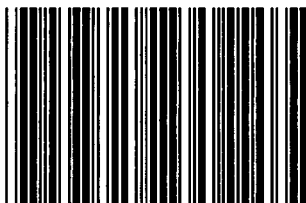
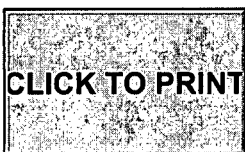
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(2) Subject* **Alliance for GATT Now**

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BAUCUS

Remarks of Senator Max Baucus
Alliance for GATT Now

May 19, 1994

Good morning, and thank you for the invitation.

A month ago in Morocco, the signing of the Uruguay Round agreement capped nearly eight years of negotiations. The Round was opened and largely written by Republican Presidents. It was authorized and encouraged by Democratic Congresses. It had bipartisan support from the beginning and still does today. And on balance it is a good deal for our country.

Today I would like to talk about what the GATT offers our country, and the issues we need to address in the implementing legislation. But unfortunately, that is premature.

Instead, we must discuss the budget process. A procedure we adopted four years ago, the so-called "pay-as-you-go" rule, makes us cut a dollar in spending or raise a dollar in taxes for each dollar we lose in tariffs. This rule has come to threaten the entire GATT enterprise. And so today I will make the case to waive the rule so that we can pass the GATT this year.

ACCOMPLISHMENTS OF THE URUGUAY ROUND

Let's begin by reviewing the opportunity we have at hand. When we opened the Round in the fall of 1986, we hoped to bring trade in services and farm products under GATT; cut agricultural export subsidies; require GATT members to protect intellectual property rights; and continue cutting tariffs and opening markets on a fair, reciprocal basis. And while we did not meet all our goals, we met many of them.

Within ten years, the Round will raise world economic production by \$270 billion a year. It will cut Europe's agricultural export subsidies, reduce tariffs and protect works of intellectual property.

The Administration believes that it can add between \$100 and \$200 billion a year to America's economy, and create hundreds of thousands of new jobs.

It is not a perfect agreement. We need to keep working on tariffs. We need more cuts in agricultural export subsidies. The audiovisual quota problem remains unsolved. I would like shorter phaseouts on patent standards, more attention to environmental issues and a fairer deal in financial services. Some of this can be done in the implementing legislation, but much cannot. But on the whole, the Round is good for the United States.

RETAIN RIGHTS TO USE NATIONAL TRADE LAW

Equally important is something the Round does not do. That is, it does not eliminate our right to use trade laws like Section 301 and Special 301.

While the agreement is basically sound, it will not solve all our problems. Many issues remain on which we have serious differences with our GATT partners, and on which we must be ready to use our national laws.

Japan's collusive business practices, of course, were outside the Uruguay Round's scope from the start. GATT is not equipped to address them.

We still need bilateral talks and the leverage of Super 301 to solve them, and the National Trade Estimate's 44-page report on Japanese trade practices shows how far we have to go.

On balance, the Uruguay Round will have some effects in anti-dumping, countervailing duties, and the various incarnations of the 301 law -- regular Section 301, Super 301 and Special 301. But they are limited and can be addressed in the implementing bill. On intellectual property, the bill can make clear that we can use Special 301 if necessary in areas that remain outside the GATT. It should also require beneficiaries to meet GATT level standards to keep their GSP privileges.

GATT AND SUBSIDIES

Then we come to the subsidy provisions, which allow GATT members to "greenlight" an array of government industrial policies. In essence, they are designed to protect us against challenges to our industrial research programs -- SEMATECH, the Advanced Technology Program, even National Institutes of Health grants to medical labs. Nobody has ever challenged these programs. And when you set out, as we seem to have done, to fix something that wasn't broken, you usually create new problems.

I think there are ways to fix this problem in implementing legislation. But it does have to be fixed -- even if you see no problems at all, you see forty-four Republican Senators on a letter saying so.

That opposition is probably enough to stop the Round. Trade agreements require a bipartisan consensus to negotiate and pass, and that applies to funding as well.

WTO AND SOVEREIGNTY

The other issue which seems to have popped up recently is the implications of the new World Trade Organization for American sovereignty. I say "seems," because the WTO is really an idea that has been around for a while. It is firmly rooted in the history of this Round all the way back to 1986. It was in the fast-track authorizing bills. It should come as no surprise.

Sovereignty is an emotional issue. But a close look shows that the WTO does not undermine sovereignty in any meaningful way. And the people who are complaining could have looked -- as I did -- at the proposal when the Bush Administration negotiators proposed it in 1988. Nonetheless, it is a concern which we need to address through education and the implementing bill.

PASS THE GATT THIS YEAR

On the whole, the GATT is a good deal. Every other country recognizes this. I believe every other country is ready to pass the GATT this year. It is critical to our ability to remain a leader on international economics and trade.

It is crucial to our credibility in all international trade negotiations -- whether it is opening the markets of China and Japan, freer trade with Latin America, or dealing with our problems in Europe and Canada. We need to pass the GATT and we need to do it this year. And I believe Congress recognizes that.

PAYING FOR THE GATT

This is all very well. But the agreement is only a blueprint. With imagination and a couple of floor votes, you can turn it into a good sturdy house. But we also have to pay the construction firm.

At present estimates, the Uruguay Round will require us to give up \$14 billion in tariff revenue over the next five years. The Administration wants to include renewal of the Generalized System of Preferences and the Caribbean Basin Initiative. If we go ahead with that, it rises to \$18 billion. And under the present budget laws, we have to make up at least for \$14 billion, possibly \$18 billion, and maybe even much more if we have to pay for ten years worth of tariff cuts.

This will be tough. It will be almost impossible to find a consensus for paying for the GATT with spending cuts. As an example, I voted for Senator Kerrey's amendment last winter to cut \$94 billion from government health, military and agricultural programs. Only 34 other Senators joined us.

The House would not even accept \$13 billion of the \$26 billion in additional cuts we did adopt in this year's budget resolution.

Look at the proposals the Administration has floated. Raising spectrum fees for radio broadcasters, cutting the farm program and so on. Every Congressional office has heard from the radio broadcasters, asking why they should pay for an agreement that means almost nothing to radio stations. Apart from the obvious political difficulty of getting Members of Congress to pick fights with every radio station in their district, especially in an election year, the radio broadcasters are right. It is unfair to pick on them. Likewise with agriculture, which gets less from the new WTO than most American business sectors.

So it's tough to get started. And even if we find some new places to cut, it is just practical reality that the President and the Administration as a whole have made health reform the top priority. So has most of Congress. Whatever taxes and cuts we enact this year are likely to go to fund the health bill.

THE CASE FOR A BUDGET WAIVER

It's a tough job. And before we threaten the whole GATT by gambling that we can find some way to resolve it, we should examine our assumptions. To me, finding budget cuts or tax increases to "pay" for the GATT makes no economic sense.

There is virtually universal agreement among economists that freer trade spurs economic growth. Entire dreary volumes of economic work show that in case after case, tariff cuts mean more economic growth and thus higher government revenues.

In the specific case of the Uruguay Round, to my knowledge, every economist who has examined the question of the impact of the Round on federal revenues has found that the increased economic activity will raise, not cost, revenues. A recent study by the Institute for International Economics concluded that:

"even under conservative assumptions, the Round should increase rather than reduce net fiscal revenue to the federal government."

The study found that under a wide range of economic assumptions the Round was likely to generate revenue and help close the budget gap. Similar findings were reflected in a recent analysis conducted by DRI/McGraw Hill ✓

The case for the Round increasing revenues to the federal government is much stronger than for other proposed exceptions, such as a cut in the capital gains tax. In this case, the real revenue effect is virtually certain to be positive. Under some assumptions, the Round may do more to create economic growth and shrink the budget deficit than any other measure this Congress is likely to consider. In other examples, the effect on the budget is at best debatable.

PRECEDENTS FOR WAIVING THE RULE

Pay-as-you-go is a good rule. We wrote it and in general we should live by it. But every rule has exceptions. When we passed the rule, we also included a waiver procedure for special cases -- and the GATT is a special case. A good trade agreement, like the Uruguay Round, is not a revenue loser. And even in the case of obvious revenue losers, we have accepted budget waivers in the past.

We have done it for international emergencies -- for example, the Gulf War and Kurdish refugee relief.

We have done it for domestic emergencies. Last year, there was aid for victims of the Midwestern flood and the Los Angeles fires.

Before that, Hurricane Bob and the Yellowstone fire of 1992. The L.A. riot was another example. And remember a few years ago when the city of Chicago broke a hole in the bottom of the Chicago River and flooded all the basements? Remember "The City that Goes Glug, Glug, Glug?" We waived the budget rules to help them plug up the hole.

So we've done it quite a few times. But the most relevant example is unemployment assistance. We waived the budget rules to help people who lost their jobs in the recession. We were right to do it. But look at the irony. We can waive the rules when people lose their jobs. But we can't do it to pass an agreement that will put them back to work?

The pay-as-you-go rule is like underwear. It's important. You need underwear. But you look foolish and uncomfortable if you insist on wearing the tightest pair you can find.

DELAY THE GATT?

I am convinced that a budget waiver is good policy. I am pessimistic about the political chances to pass a GATT bill any other way. And it is already late in May, so there is not much time left to decide.

But, and this is always a shock to me, my position is not universally held. Senate Republicans in particular, but others as well, have expressed skepticism about a budget waiver.

There are forty-four Senate Republicans alone, and nine in the Finance Committee. If they don't want a waiver they will be able to stop one. At that point, we will either have to delay the implementing bill until 1995, or find the money somewhere.

The House Majority Leader thinks we should delay for a year. That means a diplomatic embarrassment for the United States; a long wait on something that will be a huge boost to our economy and business confidence.

And next year, of course, we will face the same argument all over again, with a big class of new Members of Congress. Maybe they will all be GATT mavens and trade lawyers. But I kind of doubt it.

Most will never have voted on fast track, listened to a GATT hearing, or anything else. They will want to take their time on the issue. It might even be unrealistic to expect a bill before 1996.

WHAT ARE THE ALTERNATIVES?

So we need to pass the Round this year, and we need the budget waiver to do it.

But trade policy is made on a bipartisan basis, or it is not made at all. If there is no bipartisan consensus for a waiver, there will be no waiver.

Where then can we look for the money? Or, to be more pointed, where else can the Republicans who oppose a waiver -- and thus must take responsibility for finding the money -- look?

You can rule out most options right away. First, there are social programs. What cuts you see there this year will go to health reform. And in any case, it is grossly unfair to make the elderly and the poor, who will benefit less from the GATT than most people, take the burden of paying for it.

Then there is the military. It is already cut to the bone. And it would be tough -- and maybe dangerous given North Korea, Iraq and our other problems -- to squeeze more money out of defense.

And finally there are new taxes. I don't think the business community wants the GATT so badly it would propose a rise in the corporate tax rate. Correct me if I'm wrong, and ask someone else to put their name on the bill.

I see only one realistic alternative. Opponents of a budget waiver must look at the tax code -- specifically, at the provisions we euphemistically call "tax expenditures."

They must find the deductions and loopholes which benefit those who gain most from the GATT. For example, writeoffs for percentage depletion; advertising; meals; foreign source income preferences and the like. They must keep crossing them off until they get to at least \$14 billion.

If they are not prepared to do that, they should either accept the waiver or admit that there will be no GATT -- this year for sure, and maybe next year too.

CONCLUSION

It is a pity to spend so much time discussing the budget. This Round of the GATT, eight years in the making, will be good for our country. It will be good for the world. There is overwhelming consensus on that. And we have a lot left to do -- in tariffs, subsidies, intellectual property and elsewhere -- in a few short months if we are to finish on time.

These problems are important. I hope to spend time working hard on an implementing bill that protects our trade laws, and deals with our problems in sovereignty, agriculture and so on. But we can't get to any of them if we can't solve the money problem.

To do that, we need your help. You are the Alliance for GATT Now. If we want GATT now, we need the budget waiver. So I'm counting on you to organize the business community, and get them behind the waiver. We don't have much time, and we need all the help and commitment we can get.

Thank you, and now I'll take your questions.